

AUDITOR'S REPORT

HARRIS HEALTH SYSTEM GRANT CONTROLS



October 30, 2014

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HARRIS COUNTY AUDITOR

October 30, 2014

Mr. George Masi
President and Chief Executive Officer
Harris Health System
2525 Holly Hall
Houston, Texas 77054

RE: Grant and Research Controls for the six month period ended August 31, 2013

The Audit Services Department performed procedures relative to Harris Health System (Harris Health) Grant and Research Controls. The objective of the engagement was to selectively evaluate critical controls for grants and research projects. The following procedures were performed:

- Reviewed policies for grants and research.
- Selectively met with employees responsible for grants and research projects to obtain an understanding of administrative and financial controls.
- Reviewed reports on independent oversight and testing procedures performed for state and federal grants.
- Reviewed and evaluated controls for approving grants and research projects.
- Selectively tested controls over grant payments and compliance with grant agreements.
- Reviewed and evaluated controls for compensation received for research conducted in facilities and services provided to research patients.
- Reviewed and evaluated reporting for grants and research.

At the request of Harris Health Management, engagement results, issues, and recommendations for grant controls are reported in this separate Auditor's Report. Engagement results, issues, and recommendations for research controls are reported separately for presentation to the Harris Health System Board of Managers' Joint Conference Committee.

The engagement process included providing former President and Chief Executive Officer David Lopez with engagement and scope letters and conducting an entrance and exit conference with Harris Health personnel. The purpose of the letters and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

Mr. George Masi
President and Chief Executive Officer

The enclosed Auditor's Report presents the significant issues related to grants identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations related to grants have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott
County Auditor

cc: Harris Health System Board of Managers
District Judges
County Judge Ed Emmett
Commissioners:
 R. Jack Cagle
 El Franco Lee
 Jack Morman
 Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

Some of the services provided to the community by Harris Health are supported by funding provided by Federal and State grants. For the six months ended August 31, 2013, approximately \$6.7 million in expenditures for services were funded through programs supported by Federal and State grants.

During the same period, Harris Health reported \$0.4 million in expenditures for services funded by grants from private foundations, corporations, individuals, and other non-government sources (private grants). Some private grants are provided by, or pass through the Harris County Hospital District Foundation (Foundation). The Foundation also provides restricted and non-restricted donations. The amount of restricted and non-restricted donations received from the Foundation during the period is not included in the amount reported above.

When a grant is received, a management level employee (Program Manager) is assigned to administer the grant program for Harris Health. At the same time, the Director of the Grant Accounting Department (Grant Accounting) requests that a separate department (grant cost center) be established in the financial records (PeopleSoft) to record grant revenues and expenses.

The purpose of the grant award is documented in a grant agreement between the grant sponsors and Harris Health. Grant agreements describe how the funds are to be used and how Harris Health will receive the grant funding (i.e. fee-for-service payments, cost reimbursement, a lump sum payment). The grant agreements may also require Harris Health to periodically report back to the grant sponsor or be subject to independent audits to verify that they are complying with the grant agreements.

For fee-for-service or cost reimbursement grants, Senior Accountants in Grant Accounting prepare and submit monthly invoices to the grant sponsors for the services provided, or for the cost that are eligible to be reimbursed. In some cases, employees in departments responsible for administration of the grants may perform invoicing to grant sponsors using electronic billing systems provided to Harris Health by the sponsors for that purpose. Invoices sent to grant sponsors include instructions to send payments directly to the Harris Health Cash Management Department for deposit in Harris Health's bank account.

Each month, Senior Accountants in Grant Accounting prepare *Monthly Expenditure Reports* on electronic spreadsheets that summarize grant revenues and expenses that are recorded in PeopleSoft. The *Monthly Expenditure Reports* are reviewed and approved by the Director of Grant Accounting and sent to the responsible grant Program Managers for review.

RESULTS

Based on the procedures performed and transactions selectively tested, controls for disbursement of grant payments appear to be adequate. In addition, controls for ensuring compliance with grant agreements also appear to be adequate. Recently issued reports reviewed by Audit Services for audits of state and federal grants by other government or independent auditors did not identify significant issues.

During our procedures, process improvements were being considered or implemented related to grants. Grant Accounting Management informed us that Foundation Management was developing and implementing standard agreements for private grants. Grant Accounting Management was also evaluating the benefits of implementing a grant accounting system.

Certain additional control improvements were identified through our procedures and should be implemented to:

- Ensure information from subcontractors is received to test compliance with salary reimbursement limitations.
- Obtain authorizations for private grant agreements in accordance with policy.

These issues are discussed in more detail in the Issues and Recommendations matrix below.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Accounting for Grants	Reporting of grant activity is accomplished by Senior Accountants transferring information for individual grants from PeopleSoft to electronic spreadsheets. A monthly report that summarizes all grant activity is not prepared.	<p>Grant Accounting does not use a grant accounting system with automated system controls and reporting capabilities. As a result, summary grant reporting is not available for senior management review and there is an increased risk of undetected errors.</p> <p>Grant Accounting Management informed us they are evaluating the implementation of a grant accounting system.</p>	Grant Accounting Management should continue to evaluate implementing a grant accounting system. In the interim, consideration should be given to developing a monthly report summarizing grant activity for senior management from the information included on the spreadsheets prepared monthly.	Monthly revenue and expense activity for a cost reimbursement grant is captured in the PeopleSoft financial system in a designated cost center. Fee for service grants capture the costs directly associated with administering a grant in a designated cost center in PeopleSoft. Fee for service revenues, however, are not reflected in a grant cost center but in an operating cost center as are other patient service revenues and reimbursements. The reporting is pushed monthly to a program director with responsibility for that grant. In addition, consolidated reporting capabilities exist within the PeopleSoft system for various reporting needs. However, the PeopleSoft accounting system is based on a 12 month period that is the System's fiscal year,

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Accounting for Grants				<p>March through February, and does not facilitate reporting for a grant crossing fiscal periods. Excel reports or MER's (monthly expenditure reports) are currently used to report the monthly activity crossing fiscal years. These reports will be reviewed for potential consolidations as needed by senior management. System management has reviewed various grant accounting system options and has included for consideration the PeopleSoft Grants Module during recent budget cycles. However, with current budget restraints, implementation has not been a System priority. Senior management does recognize the benefits of the module and will continue to consider purchasing it in other budget cycles.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Supporting Contractor Billings	Harris Health pays subcontractors salary reimbursement, primarily for physician services. The Consolidated Appropriations Act of 2012 established an annual salary reimbursement limit (\$179,700 for the year ended September 30, 2013) for grants funded through the U.S. Department of Health and Human Services.	Invoices from subcontractors do not always include information needed by Senior Accountants and/or the Director of Grant Accounting to verify compliance with salary reimbursement limits. As a result, there is an increased risk that, if non-compliance occurs, it will not be timely identified.	Grant Accounting Management should require disclosure at the beginning of a grant of the annual salary and the expected percentage of time that will be allocated by physicians subcontracted for U.S. Department of Health and Human Services grants. Grant Accounting Management should also require that subcontractor invoices disclose actual hours worked and fringe benefits allocations for each physician billed.	One of the medical school's billings does not contain enough information regarding the salary, benefits, and effort of the faculty members included on the invoice. Grant Accounting staff will request this information from the billing department at the medical school before payment of the invoice. During the preparation of the grant application, Grant Program Directors and/or Grant Accounting staff will request the annual salary of the faculty member in order to comply with the salary cap requirement. The requirements are to be specified in the grant application, the contract and the invoicing/payment requirements section of the contract.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>Documenting Private Grants</p>	<p>Harris Health Policy 3.03, <i>Signature Authority on Contracts</i>, requires the President and Chief Executive Officer (or Executive Vice President and Chief Operating Officer in his absence) to sign to authorize grant agreements. In addition, the purposes for which grant funds are awarded are documented in grant agreements, which may be a one page letter, or may be a more detailed document.</p> <p>Documentation for six private grants active during the six months ended August 31, 2013, were selected and reviewed by Audit Services.</p>	<p>Four of six private grants reviewed, with a total award amount of \$95,529, did not have evidence of authorization in accordance with Policy. In addition, one of the four private grants with an award amount of \$18,120 did not have a documented grant agreement.</p> <p>Not obtaining appropriate authorization signatures for grant agreements does not comply with Policy and increases the risk that grants accepted do not align with Harris Health's mission or will not be spent as required.</p> <p>Grant Accounting Management informed us that standard grant agreement forms are being developed by the Foundation to document private grants.</p>	<p>Grant Accounting Management should ensure all private grant agreements are authorized in accordance with Policy and require grant agreements be provided for all private grants.</p>	<p>The Harris County Attorney's Office and the attorney representing the HCHD Foundation have created formal templates for agreements between the two entities that require signatures by both parties. Templates and procedures have been formalized for the authorization and acceptance of grant funds and the transfer of the funds. These agreements will also contain pertinent information such as the proposal and the agreement between the granting agency and the HCHD Foundation. Harris Health System Board of Manager approval will be required for these contracts.</p>

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

Inherent Risk:	Control Risk:		Overall Risk:
<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low	Prior to Procedures	After Procedures	<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low
	Adequate	Adequate	
Type of Procedures: Audit			
Purpose: To selectively evaluate critical controls for grants.			
Outstanding Audit Recommendations:			
Priority Rating:	Audit Recommendations: Harris Health System		
3	Continue to evaluate implementing a grant accounting system. In the interim, consider developing a monthly report summarizing grant activity for senior management from the information on the spreadsheets prepared monthly.		
1	Require disclosure at the beginning of a grant of the annual salary and the expected percentage of time that will be allocated by contracted physicians for U.S. Department of Health and Human Services grants. Require that subcontractor invoices disclose actual hours worked and fringe benefits allocations for each physician billed.		
1	Ensure all private grant agreements are signed in accordance with Policy. Require grant agreements for all private grants.		
Priority Rating	<ol style="list-style-type: none"> 1. Implement immediately (30 – 90 days) – Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. Work towards implementing (6 – 18 months) – Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. Implement in the future (two – three years) – Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.). 		